

Message Text

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44

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 NEA-11 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 FPC-01 AEC-11 SCI-06 DRC-01 IO-14 /215 W

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P R 221320Z JAN 74

FM AMEMBASSY PORT OF SPAIN

TO SECSTATE WASHDC PRIORITY 5977

INFO AMEMBASSY CARACAS PRIORITY

AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

UNCLAS PORT OF SPAIN 175

E.O. 11652: N/A

TAGS: ENRG EFIN PINT TD

SUBJ: ENERGY: GOTT ADOPTS TAX REFERENCE PRICE AND OTHER NEW TAX
MEASURES TO MAXIMIZE OIL REVENUE

REF: POS 0147; POS 006

SUMMARY

THE GOTT'S 1974 BUDGET SUBMISSION IS LARGELY CONCERNED WITH
MAXIMIZATION OF OIL REVENUES AND UTILIZATION OF THESE REVENUES
TO CUSHION THE ANTICIPATED DOMESTIC EFFECTS OF THE WORLD
ENERGY SITUATION. THE GOTT WILL ADOPT, RETROACTIVE TO JANUARY
1, 1974, A TAX REFERENCE PRICE FOR CRUDE PRODUCED IN TRINIDAD,
PEGGED AT \$14.93 PER BBL FOR AMOCO'S HIGH-QUALITY CRUDE. OTHER
RETROACTIVE OIL TAX MEASURES INCLUDE A THROUGHPUT TAX OF 10-15
CENTS PER BBL ON CRUDE REFINED IN TRINIDAD, AND A 2-1/2 PERCENT
INCREASE IN THE CORPORAT TAX RATE FOR PETROLEUM COMPANIES.
REVENUES WILL BE USED INTER ALIA TO SUBSIDIZE CONTROLLED PRICE
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LEVELS, TO OFFSET TAX REDUCTIONS FOR LOWER-INCOME GROUPS, AND

TO HELP FINANCE DEVELOPMENT OF PETROLEUM-RELATED
INDUSTRY AND SUPPORT FACILITIES. END SUMMARY.

1. THE GOTT'S ANNUAL BUDGET SPEECH, DELIVERED BY FINANCE
MINISTER CHAMBERS ON JANUARY 21, DESCRIBED PRICE INFLATION
AS THE TRINIDAD ECONOMY'S MOST SERIOUS SHORT-TERM PROBLEM,
AND MAXIMIZATION AND PROPER UTILIZATION OF PETROLEUM REVENUE
AS THE GREATEST LONG-RUN CHALLENGE. CHAMBERS PLACED MOST
OF THE BLAME FOR PRICE INFLATION (THE RETAIL PRICE INDEX
JUMPED 23 PERCENT IN 1973) ON INTERNATIONAL MONETARY
INSTABILITY, AND WARNED THAT "IMPORTED INFLATION" WILL
CONTINUE TO BE A PROBLEM DUE TO HIGHER COSTS OF FOODSTUFFS,
TRANSPORT, AND PETROLEUM. IN AN EFFORT TO HOLD DOWN DOMESTIC
PRICE INCREASES, THE GOTT WILL CONTINUE TO SUBSIDIZE CERTAIN
BASIC COMMODITIES SUCH AS RICE AND FLOUR (ALTHOUGH PRICES OF
THE LATTER WILL RISE SOMEWHAT). THE RETAIL PRICE OF GASOLINE
WILL BE HELD AT ITS PRESENT RATE (ABOUT 40 CENTS PER IMPERIAL
GALLON), AND DIESEL FUEL WILL NOW BE PRICE-CONTROLLED (ALSO AT
40 CENTS PER IMPERIAL GALLON). THESE (AND OTHER) DOMESTIC
FUEL PRICES WILL BE SUBSIDIZED THROUGH A COMPLICATED SYSTEM OF
SPECIAL TAXES ON PETROLEUM PRODUCERS IN TRINIDAD, WHO IN TURN
WILL BE ALLOWED TO TREAT THE SPECIAL TAX AS A BUSINESS EXPENSE.

2. OTHER MEASURES DESIGNED TO REDUCE THE RATE OF INFLATION
INCLUDE THE FOLLOWING: (A) A SPECIAL FUND TO STIMULATE LOCAL
FOOD PRODUCTION; (B) AN EXPANDED FISHING FLEET AND NEW PROCESSING
FACILITIES; (C) CONTINUED SUBSIDIZATION OF PUBLIC TRANSIT FARES
AND ACQUISITION OF 200 NEW BUSES FROM JAPAN; (D) REDUCED
PURCHASE TAXES ON TAXIS, LOWER-PRICED (LESS THAN \$3000)
PRIVATE CARS, AND STOVES AND REFRIGERATORS. THE BUDGET ALSO
INCLUDES TAX RELIEF MEASURES FOR LOW INCOME GROUPS, WHICH
THE GOTT SAYS WILL BENEFIT 67,000 TAXPAYERS, AS WELL AS
INCREASED SOCIAL SECURITY BENEFITS.

3. CHAMBERS REFERRED TO THE PRIME MINISTERS'S EXHORTATIONS
THAT WINDFALL PETROLEUM REVENUES MUST BE USED TO BRING
ABOUT A LONG TERM RESTRUCTURING OF TRINIDAD'S ECONOMY, AND
PROPOSED THE FOLLOWING STEPS TO BE TAKEN OVER THE NEXT FEW
YEARS: (A) INCREASE AGRICULTURAL DEVELOPMENT BANK LENDING--
TARGET \$25 MILLION IN RESOURCES; (B) INCREASE CAPITAL OF THE
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DEVELOPMENT FINANCE CORPORATION--TARGET \$25 MILLION; (C) CREATE
A PETROLEUM DEVELOPMENT FUND--TARGET -175 MILLION, WITH \$75
MILLION TO BE APPROPRIATED IN 1974; (D) ESTABLISH A PETROLEUM
TRAINING INSTITUTE; AND (E) ESTABLISH AN INSTITUTE OF BANKING.
THE IMMEDIATE GOALS OF THE PETROLEUM DEVELOPMENT FUND ARE TO
BUILD A NATURAL GAS PIPELINE ACROSS TRINIDAD FROM GALEOTA POINT
(SHORE TERMINAL FOR AMOCO'S OFFSHORE FIELDS) TO POINT LISAS,
TO DEVELOP AN INDUSTRIAL COMPLEX AT POINT LISAS, AND TO ATTRACT

ENERGY-RELATED INDUSTRIES (FERTILIZER, PETROCHEMICALS, STEEL, ALUMINUM) TO TRINIDAD.

4. CHAMBERS PRESENTED A DETAILED SUMMARY OF PRESENT GOTT OIL REVENUES REGULATIONS, AND SAID THAT NEW REVENUE LEGISLATION WILL BE INTRODUCED INTO PARLIAMENT IN THE NEAR FUTURE. IN THE MEANTIME, HE ANNOUNCED THAT THE GOTT HAS TAKEN THE FOLLOWING MEASURES, RETROACTIVE TO JANUARY 1:

(A) ADOPTION OF A TAX REFERENCE PRICE FOR CRUDE, TO VARY IN ACCORD WITH QUALITY. ONLY TWO PRICES HAVE BEEN ADOPTED THUS FAR: \$13.73 PER BBL FOR SOLDADO CRUDE FROM THE GULF OF PARIA, AND \$14.93 PER BBL FOR AMOCO'S CRUDE PRODUCED OFF SOUTHEASTERN TRINIDAD; (B) ADOPTION OF A THROUGHPUT TAX OF 10 CENTS/BBL ON PRODUCTS FROM THE SHELL REFINERY, AND 15 CENTS/BBL ON TEXACO'S THROUGHPUT; (C) THE CORPORATE TAX RATE FOR OIL COMPANIES IS SET AT 47-1/2 PERCENT, UP 2-1/2 PERCENT FROM THE GENERAL CORPORATE RATE. PETROLEUM MARKETING COMPANIES AND OTHER OIL COMPANY SUBSIDIARIES WILL BE TREATED AS SEPARATE ENTITIES FOR CORPORATE TAX PURPOSES.

5. COMMENT: THIS BUDGET PRESENTATION DOES NOT CONSIDER THE FULL EFFECTS OF THE GOTT OIL REVENUE MEASURES, WHICH WILL BE THE SUBJECT OF A SEPARATE BUDGET SUBMISSION LATER IN THE YEAR. FURTHER COMMENT FOLLOWS SEPTEL.
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